Strategic Planning and Funding

60×30TX

Texas Higher Education Coordinating Board

Financial Condition Analysis of Texas Public Community College Districts

April 2020

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Texas Higher Education Coordinating Board

Agency Mission

The mission of the Texas Higher Education Coordinating Board (THECB) is to provide leadership and coordination for Texas higher education and to promote access, affordability, quality, success, and cost efficiency through *60x30TX*, resulting in a globally competitive workforce that positions Texas as an international leader.

Agency Vision

The THECB will be recognized as an international leader in developing and implementing innovative higher education policy to accomplish our mission.

Agency Philosophy

The THECB will promote access to and success in quality higher education across the state with the conviction that access and success without quality is mediocrity and that quality without access and success is unacceptable.

The THECB's core values are:
Accountability: We hold ourselves responsible for our actions and welcome every opportunity to educate stakeholders about our policies, decisions, and aspirations.
Efficiency: We accomplish our work using resources in the most effective manner.
Collaboration: We develop partnerships that result in student success and a highly qualified, globally competent workforce.
Excellence: We strive for excellence in all our endeavors.

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Executive Summary

An annual report about the financial condition of the state's community colleges is required by a rider in the General Appropriations Act, Senate Bill 1, Article III- 217, Section 12, 85th Texas Legislature (See Appendix B). The objective of the report, and the accompanying Excel workbook, is to provide an assessment of the overall financial health of public community colleges and to identify the potential for financial stress at specific community colleges.

This analysis is intended to be a broad financial evaluation. Other key performance indicators must be considered to gain a more robust and complete understanding of institutional strength. This analysis is not intended for peer-group comparisons or for benchmarking purposes.

With the implementation of Governmental Accounting Standards Board (GASB) pronouncements 68 and 75, community college districts experienced significant turbulence in the financial condition metrics for Fiscal Year (FY) 2015 and FY 2018. Statements 68 and 75 are summarized below:

GASB 68 Summary

"The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency."

GASB 75 Summary

"The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency."

To create additional transparency, the GASB 68 and 75 implementation transferred pension and other post-employment benefit (OPEB) liability from the state-level financial statements of the Teachers Retirement System and Employers Retirement System to the individual financial statements of the institutions. This transfer increased the visibility of pension and OPEB liability at the community college district level. The overall effect to statewide financial ratios and to the financial condition of community college districts was substantial.

Ratios referenced in this report are commonly used by external entities to measure the health of higher education institutions. A Composite Financial Index has been calculated to provide one metric to efficiently analyze the financial health of all districts. Other ratios used in this analysis include an equity ratio and a leverage ratio. For the purpose of this report, the implementation of GASB 68 and 75 has, for the most part, been removed from the calculation of these metrics, with potential limitations of metrics using operating expenses, for FY 2019, based on updated guidance from multinational

accounting organization KPMG[1]. Coordinating Board staff will be working with the community colleges on methods to identify the full financial impacts associated with GASB 68 and 75 going forward.

[1] For more information, see *Strategic financial analysis for higher education*, 7th edition, KPMG, Prager, Sealy & Co., Bearing Point, summer 2016.

Overview

There are 50 public community college districts in Texas, the oldest dating back to 1869. They are locally controlled governmental entities established via an election process.

State statute specifies that newly created districts must have 15,000 secondary students and a minimum assessed property valuation of $2.5 billion. Five of the existing districts do not currently meet that standard.

To a significant degree, local control enables districts to determine their own financial destiny. State law and rules of the Texas Higher Education Coordinating Board (THECB or Coordinating Board) impose some limitations, but local autonomy and demographics account for much of the variation in resource allocation and revenue collection[2].

Community college districts have four primary funding sources: state formula funding, local property tax revenue, tuition and fee revenue, and other income that is largely from federal funds. Although some districts have endowments, they are more commonly found in universities. Revenue from endowments is most often used for tuition assistance as opposed to operations.

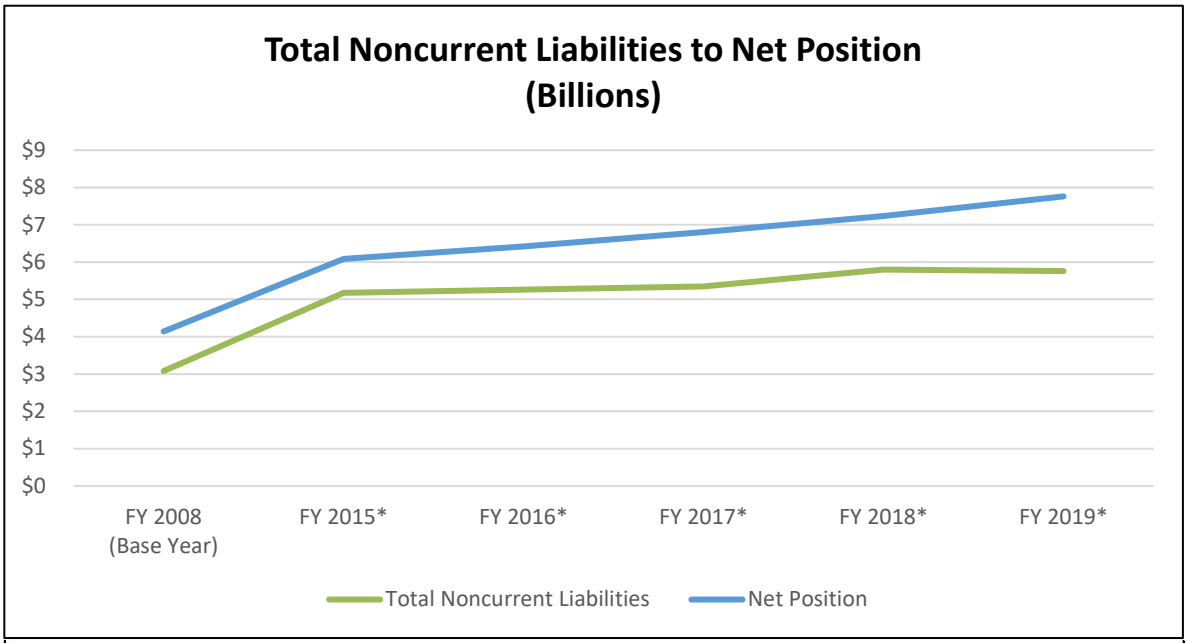
[2] Texas Research League, *Benchmarks for community and junior colleges in Texas*, August 1993.

Noncurrent Liabilities to Net Position Comparison

There are two financial components considered in analyzing the financial condition of Texas community colleges. A comparison of an institution's noncurrent liabilities or long-term debt to its cash or net position are instrumental in determining an institution's financial condition.

The year-to-year comparison in Figure 1 shows total noncurrent liabilities to net position. The graph does not include the impacts of GASB 68 and 75 implementation for FY 2019. Total noncurrent liabilities have increased $2.68 billion since FY 2008. Most of the increase is due to the issuance of general obligation (GO) bonds by the institutions. For FY 2019, the total noncurrent liabilities for Texas public community colleges was $5.76 billion. Overall, Texas public community colleges are managing the growth they have experienced. Net position has increased $3.62 billion since FY 2008, to $7.76 billion in FY 2019.

Figure 1. Comparison of Statewide Noncurrent Liabilities to Net Position of Texas Public Community Colleges



*Without GASB 68 and 75 implementation.

Financial Ratio	FY 2008	FY 2015*	FY 2016*	FY 2017*	FY 2018*	FY 2019*
Total Noncurrent Liabilities	$3.08	$5.17	$5.26	$5.34	$5.80	$5.76
Net Position	$4.14	$6.08	$6.42	$6.80	$7.23	$7.76

Financial Analysis in Higher Education[3]

The concept of using selected indicators, such as ratios, for financial analysis dates to at least 1980. Financial analysis can measure success against institutional objectives and provide useful information that can form a basis for sound planning.

The overall financial health of an institution can be assessed via two dimensions of inquiry. First, is the institution financially capable of successfully carrying out its current programs? Second, is the institution able to carry out its intended programs well into the future?

Along with these two dimensions, four key financial questions need to be asked:

- Are resources sufficient and flexible enough to support the mission?
- Are resources, including debt, managed strategically to advance the mission?
- Does asset performance and management support the strategic direction?
- Do operating results indicate the institution is living within available resources?

A widely accepted metric called the Composite Financial Index (CFI) is often used to address these four key questions. The index was developed over time by a consortium of consulting companies led by KPMG and introduced in 1999. Many institutions, including the U.S. Department of Education, the State of Ohio Board of Regents, credit- rating agencies, and countless institutions of higher education, employ the index or similar approaches.

The CFI blends four core financial ratios into one metric, providing a more balanced view of an institution's finances since weakness in one measure can be offset by strength in another. Additionally, measuring the index over time provides a glimpse of the progress institutions are making toward achieving financial goals.

The Coordinating Board has been calculating the CFI and sharing related data with community college districts since 2007.

The CFI includes the following four core ratios: Primary Reserve, Viability, Return on Net Position, and Operating Margin.

[3] For more information, see *Strategic financial analysis for higher education*, 6th edition, KPMG, Prager, Sealy & Co., Bearing Point, 2005.

Metrics Used in This Report

This report uses a Composite Financial Index (CFI) to provide one metric to efficiently analyze the financial health of all Texas community college districts. Other metrics used in this analysis include an equity ratio and a leverage ratio.

The threshold for the CFI was established by considering the original work conducted by KPMG in creating the index and industry practice. The CFI is a strong and established method to assess overall financial condition. While variability exists in the statewide CFI when looking at a year-to-year comparison, the overall financial condition of public community colleges improved in the four years before 2015, when GASB 68 took effect, with the statewide CFI increasing from 3.0 in FY 2011 to 3.3 in FY 2014. The financial condition index has continued to improve through FY 2019, when the CFI reached 3.8.

Composite Financial Index

The CFI measures the overall health of an institution by combining four ratios into a single metric. The four core ratios used in the CFI include return on net position, operating margin, primary reserve, and viability ratio.

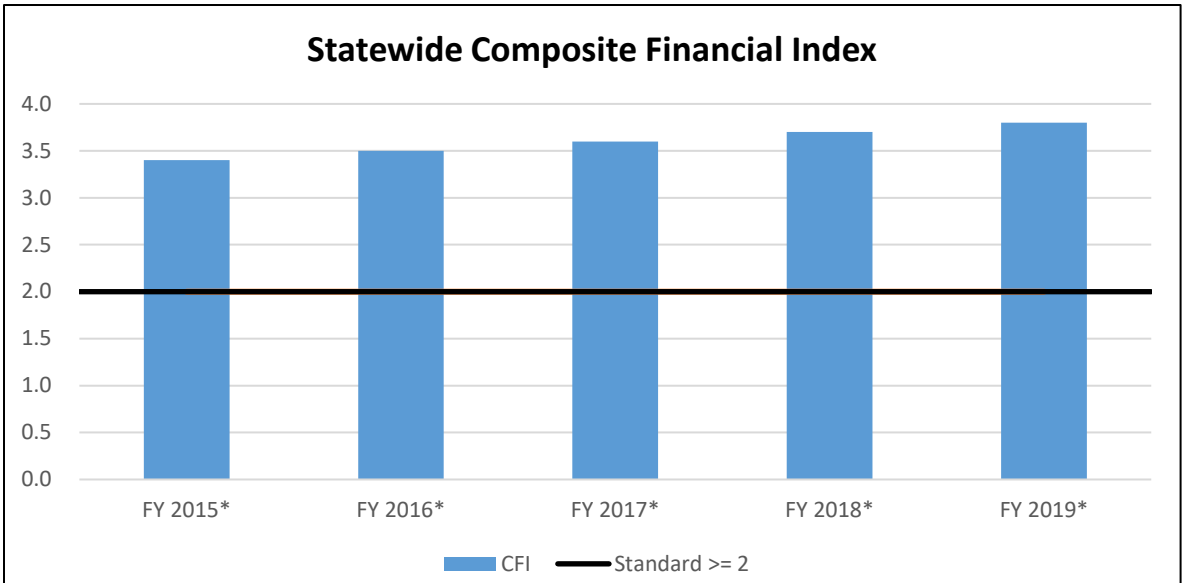
Calculation – The CFI is computed using a four-step methodology:

1. Compute the values of the core ratios.
2. Calculate strength factors by dividing the core ratios by threshold values.
3. Multiply the factors by specific weights.
4. Total the resulting scores to obtain the Composite Financial Index.

Core Ratio		*Value*		*Strength Factor*		*Weight*	*Score*
Return on Net Position	/	0.02	=	Factor	X	20%	= Score
Operating Margin	/	0.007	=	Factor	X	10%	= Score
Primary Reserve	/	0.133	=	Factor	X	35%	= Score
Viability Ratio	/	0.417	=	Factor	X	35%	= Score
				Composite Financial Index		**=**	Total Score

Results – The 2019 combined CFI for public community colleges is 3.8, which is an increase from 3.7 in 2018 and exceeds the statewide standard of 2.0 or greater. The standard was met by 40 of the 50 districts. CFI numbers generally range from 0.0 to 10.0, although it is possible to have a CFI higher than 10.0 or below zero. A year-to-year comparison of statewide CFI can be seen in Figure 2 on the following page.

Figure 2. A Year-to-Year Comparison of the Texas Public Community Colleges Composite Financial Index



*Without GASB 68 and 75 implementation.

Financial Ratio	FY 2015*	FY 2016*	FY 2017*	FY 2018*	FY 2019*
CFI	3.4	3.5	3.6	3.7	3.8
Standard >= 2	2.0	2.0	2.0	2.0	2.0

Financial Ratios

Primary Reserve Ratio

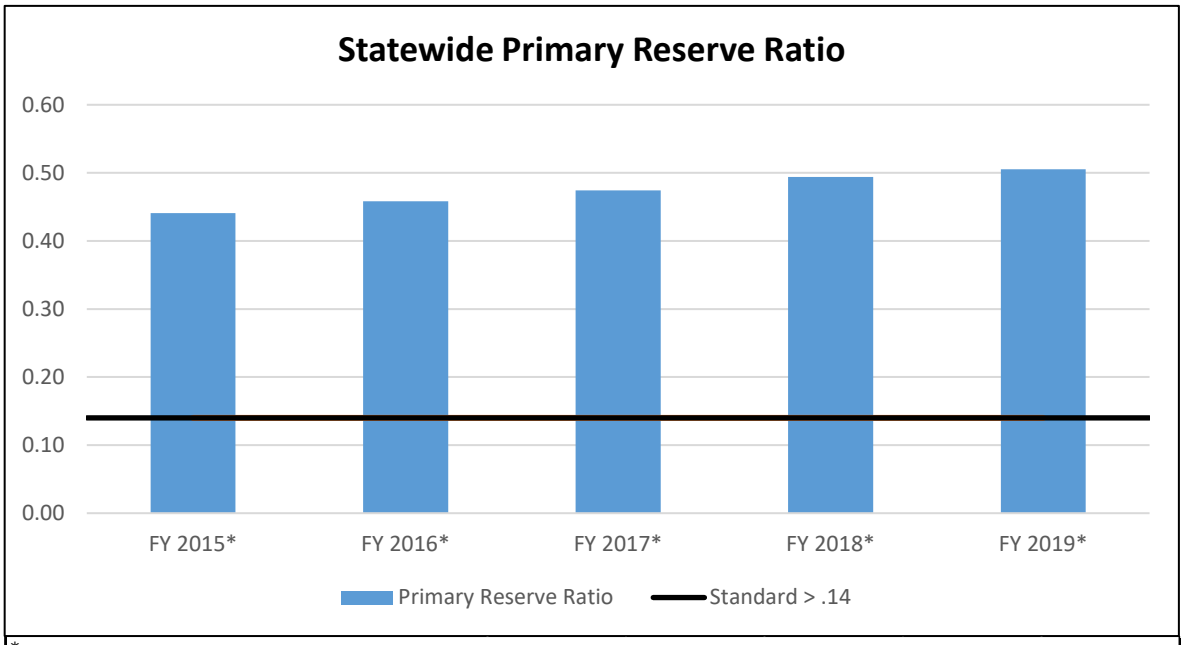
The primary reserve ratio measures financial strength and flexibility by comparing expendable net position to total expenses, as expressed in Figure 3. This measure answers the question, "How long can the institution survive without additional net position generated by operating revenue?"

Calculation – Total expendable net position + Unrestricted net position / Operating expenses + Interest expense on debt. *

*Interest expense on debt includes all debt, both tax and other revenue supported.

Results – The 2019 statewide ratio for public community colleges is .51, which is an increase from .49 in 2018. A ratio of 0.14 or greater is the standard used in this report. The standard was met by 47 of the 50 districts.

Figure 3. A Year-to-Year Comparison of the Texas Public Community Colleges Primary Reserve Ratio



*Without GASB 68 and 75 implementation.

Financial Ratio	FY 2015*	FY 2016*	FY 2017*	FY 2018*	FY 2019*
Primary Reserve Ratio	0.44	0.46	0.47	0.49	0.51
Standard > .14	0.14	0.14	0.14	0.14	0.14

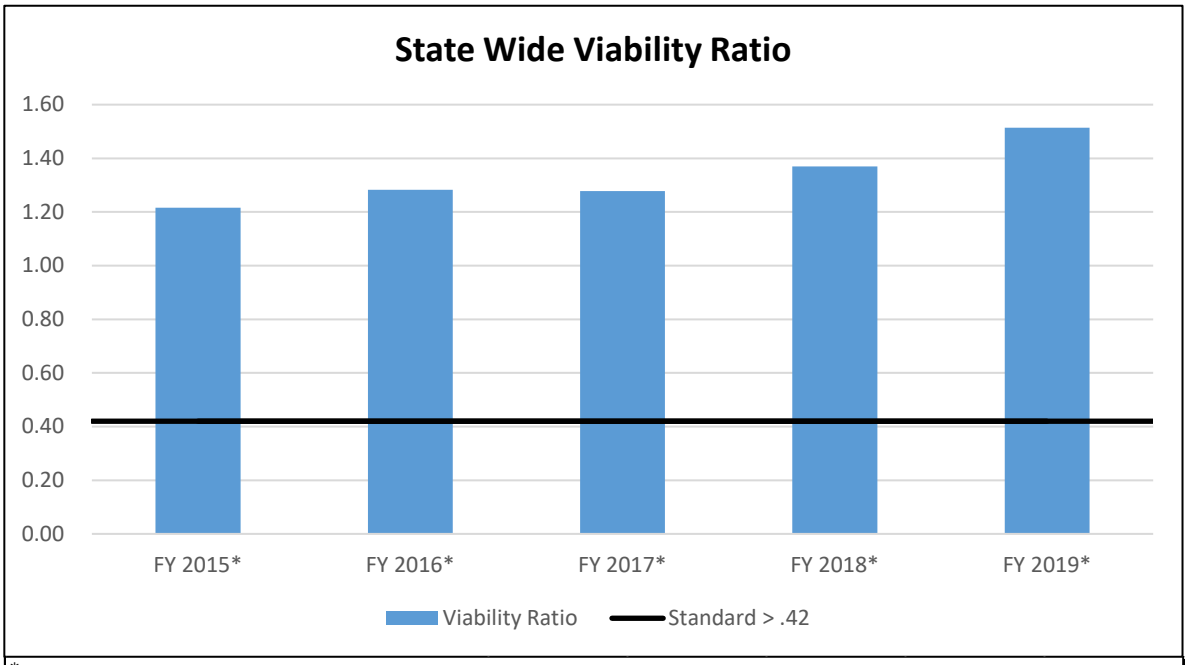
Viability Ratio

The viability ratio measures the financial health of the institution by comparing total expendable net position to total noncurrent liabilities, as expressed in Figure 4. This ratio is similar to a coverage ratio used in the private sector to indicate the ability of an organization to cover its long-term debt and answers the question, "How much of the debt can the institution pay off with existing resources?"

Calculation – Total expendable net position + Unrestricted net position / Noncurrent liabilities, excluding general obligation (GO) debt

Results – The 2019 statewide ratio for public community colleges is 1.51, which is an increase from 1.37 in 2018. A ratio of 0.42 or greater is the state standard, which was met by 44 of the 50 districts.

Figure 4. A Year-to-Year Comparison of the Texas Public Community Colleges Statewide Viability Ratio



*Without GASB 68 and 75 implementation.

Financial Ratio	FY 2015*	FY 2016*	FY 2017*	FY 2018*	FY 2019*
Viability Ratio	1.22	1.28	1.28	1.37	1.51
Standard > .42	0.42	0.42	0.42	0.42	0.42

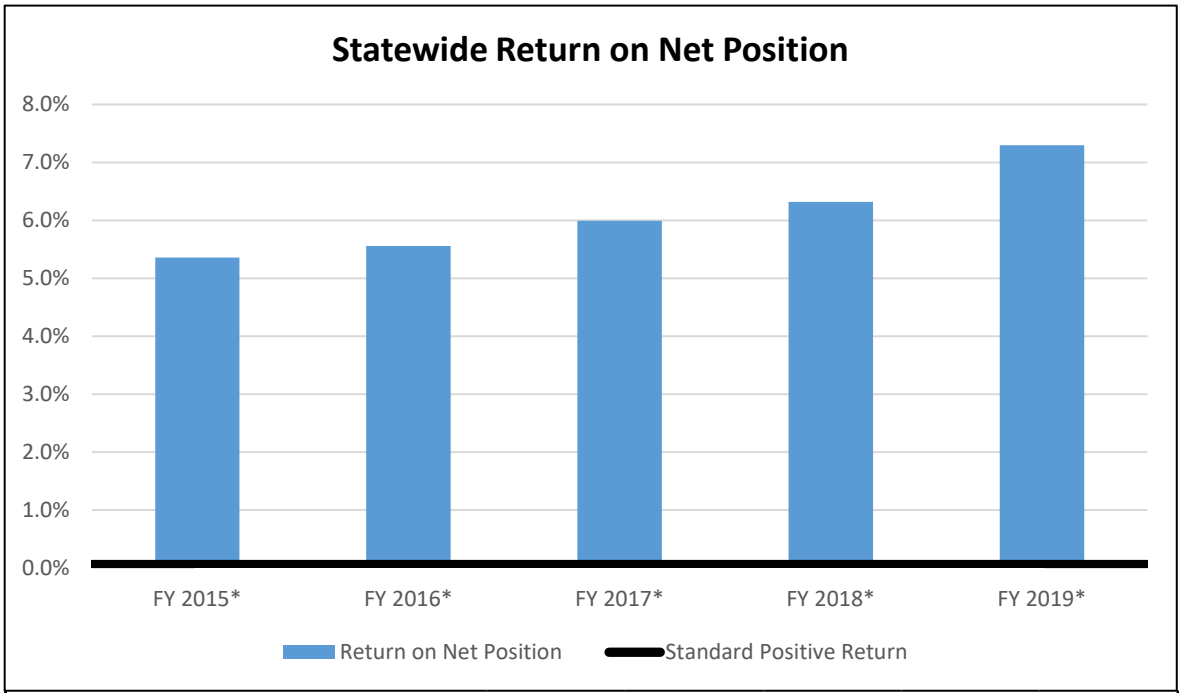
Return on Net Position

Return on net position measures total economic return during the fiscal year, as expressed in Figure 5. This measure is similar to the return on equity ratio used in examining for-profit concerns and answers the question, "Is the institution better off financially than it was a year ago?"

Calculation – Change in net position / Total net position (beginning of year)

Results – The 2019 statewide ratio for public community colleges is 7.3 percent, which is an increase from 6.3 percent in 2018. A positive return is the standard used in this report and this standard was met by 42 of the 50 districts.

Figure 5. A Year-to-Year Comparison of the Texas Public Community Colleges Statewide Net Position



*With GASB 68 and 75 implementation removed.

Financial Ratio	FY 2015*	FY 2016*	FY 2017*	FY 2018*	FY 2019*
Return on Net Position	5.4%	5.6%	6.0%	6.3%	7.3%
Standard Positive Return	0.0%	0.0%	0.0%	0.0%	0.0%

Operating Margin

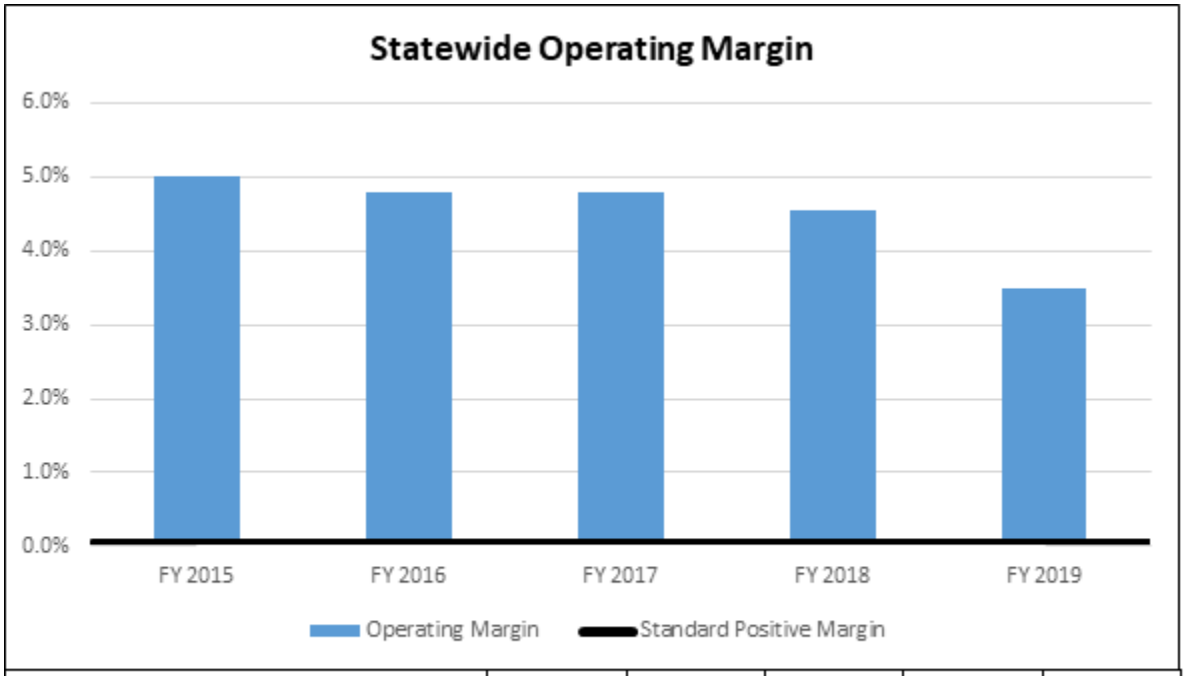
Operating margin indicates an operating surplus or deficit in the given fiscal year, as expressed in Figure 6. This ratio is similar to a profit margin and answers the question, "Did the institutions balance operating expenses with available revenue?" Depreciation expense is included to reflect the use of physical assets in measuring operating performance.

Calculation – Total income - total operating expense / Total income*

*Includes all operating revenue plus formula funding, property tax, and Title IV federal revenue.

Results – The 2019 statewide margin for public community colleges is 3.5 percent, which is a decrease from 4.6 percent in 2018. A positive margin is the standard used in this report. The standard was met by 30 of the 50 districts.

Figure 6. A Year-to-Year Comparison of the Texas Public Community Colleges Statewide Operating Margin



Financial Ratio	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Operating Margin	5.0%	4.8%	4.8%	4.6%	3.5%
Standard Positive Margin	0.0%	0.0%	0.0%	0.0%	0.0%

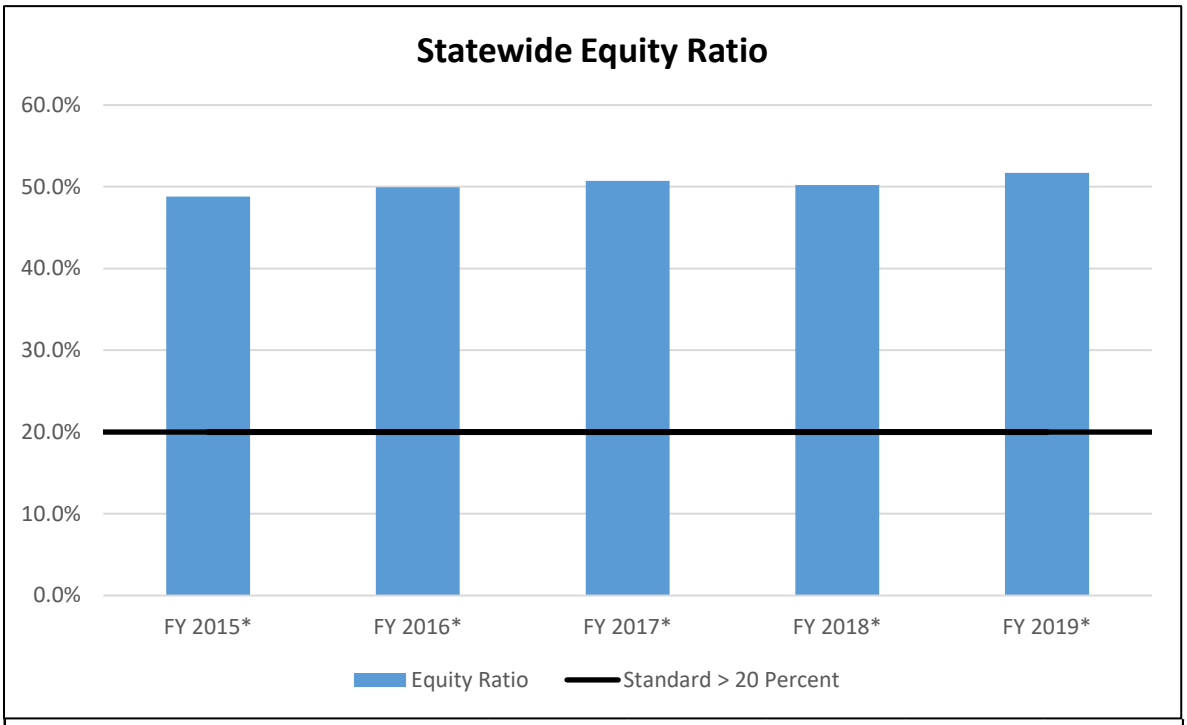
Equity Ratio

The equity ratio measures capital resources available and a college's ability to borrow, as expressed in Figure 7. The U.S. Department of Education (ED) introduced this ratio to enhance reporting for institutions that do not have long-term debt. The ED uses financial ratios, in part, to provide oversight to institutions participating in programs authorized under Title IV of the Higher Education Act.

Calculation – Net position / Total assets

Results – The 2019 statewide ratio for public community colleges is 51.7 percent, which is an increase from 50.2 percent in 2018. A ratio of 20 percent or greater is the standard used in this report. The standard was met by 48 of the 50 districts.

Figure 7. A Year-to-Year Comparison of the Texas Public Community Colleges Statewide Equity Ratio



*With GASB 68 and 75 implementation removed.

Financial Ratio	FY 2015*	FY 2016*	FY 2017*	FY 2018*	FY 2019*
Equity Ratio	48.8%	49.9%	50.7%	50.2%	51.7%
Standard > 20 Percent	20.0%	20.0%	20.0%	20.0%	20.0%

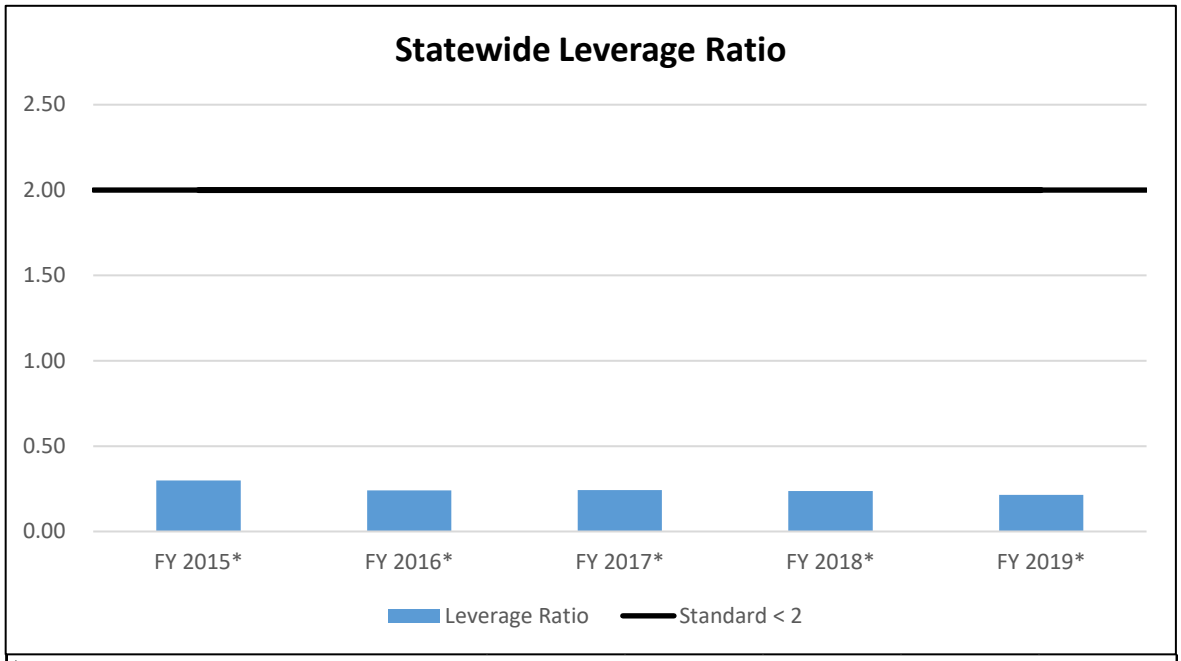
Leverage Ratio

The leverage ratio measures the amount of debt in relation to net position and provides an indication of the amount of interest and principle the institution must absorb in the future, as expressed in Figure 8. This ratio is similar to the debt-to-equity ratio used in the private sector. The leverage ratio differs from the viability ratio in that investment in physical plant assets is included as part of the numerator. Long-term debt includes bonds payable, excluding GO bonds and long-term liabilities.

Calculation – Long-term debt / Total net position

Results – The 2019 statewide ratio for the public community colleges is .21, which is a decrease from 0.24 in 2018. A ratio of less than 2.0 is the standard used in this report. The standard was met by 49 of the 50 districts.

Figure 8. A Year-to-Year Comparison of the Texas Public Community Colleges Statewide Leverage Ratio



*With GASB 68 and 75 implementation removed.

Financial Ratio	FY 2015*	FY 2016*	FY 2017*	FY 2018*	FY 2019*
Leverage Ratio	0.30	0.24	0.24	0.24	0.21
Standard < 2	2.00	2.00	2.00	2.00	2.00

Appendix A contains the indicators for the 50 districts for FY 2019. An Excel workbook is available that contains all the financial data used for the indicators and includes data for Fiscal Years 2003 to 2019.

The financial data used in this analysis came from the Community College Annual Reporting and Analysis Tool (CARAT) and is available online at: http://reports.thecb.state.tx.us/approot/carat/afr_reports.htm.

Data are reported by the institutions and came from published annual financial reports.

Financial Condition

As seen in Table 1 below, 48 of the 50 Texas public community college districts have moderate or no indication of financial stress, which means they met four or more of the seven indicators. Twenty-five of these meet the threshold for all indicators. In FY 2019, 48 community college districts had moderate or no indication of financial stress. Currently, two community college districts do not meet four or more indicators, which means they could be experiencing some financial stress.

Table 1. A Year-to-Year Comparison of the Number of Texas Public Community Colleges Meeting the Individual Indicators

	FY 2014	FY 2015*	FY 2016*	FY 2017*	FY 2018*	FY 2019*
Met all 7 indicators	29	30	29	28	30	25
Met 6 indicators	5	6	4	10	11	11
Met 5 indicators	10	7	7	7	3	6
Met 4 indicators	4	4	6	3	3	6
Met 3 indicators	0	2	2	0	3	1
Met 2 or fewer indicators	2	1	2	2	0	1
*Without GASB 68 and 75 implementation.						

The two institutions below were requested to provide brief, detailed explanations of why they did not meet four or more indicators:

Frank Phillips College

Frank Phillips College did not meet five of the indicator thresholds. The operating margin was negative. Expendable and unrestricted net position was negative, which lowered the primary reserve and viability ratios below the state standard. In the previous nine years, the college has had a negative operating margin and has not met the 2.0 threshold on the CFI.

Institutional Comments – Teri Langwell, Director of Accounting

"On behalf of Frank Phillips College, we would like to provide an explanation regarding the College's financial ratios for the year ending 2019. We understand that these ratios do show financial stress, but we would like to highlight that the OPEB adjustments created a significant impact on these values.
From a financial perspective, we as a college operate on a balanced budget excluding depreciation expense. Every year we recognize approximately $350,000 of depreciation expense which directly relates to our decrease in net position. Our net position decreased this year by $1,375,888. However, the reduction is less than the increase in OPEB and Pension liabilities of $3,802,178 by $2,426,290. We believe our small community college is headed in the right direction and will continue in this direction in the future.
Last year we discussed growing new programs and increasing our contact hours, we are working hard to accomplish this goal. Our overall contact hours were flat this year on the academic side and had a slight decrease on the career and technical side. We have continued to grow and expand our CTE programs at both our branch campuses. We are anticipating additional revenue with little related

expense. We have updated our Distance Learning Classrooms on all of our campuses so that we can teach from any of these campuses, which will lead to a direct decrease in instructional salaries while increasing tuition revenue. Another positive about the updates to these classrooms is that we can tap into the expertise of the citizens in our rural communities and broadcast it anywhere in our service area.
We are constantly working with our local communities to offer programs that will directly fill high-demand career fields. We are also collaborating with several counties and hospitals in a rural nursing program. New site implementation is currently underway to offer this program at four campuses. We have dedicated hospital staff that will assist in teaching these courses so that there will be little to minimal impact in our expense. We are anticipating growth in tuition and fees in the upcoming year, with our completed CTE programs, new branch facilities, and increased focus on our rural nursing program.
We believe that the changes above, as well as additional strategies not listed, and the support of our local communities will keep us headed in a positive direction. We are confident that our financial indicators will continue to improve and resolve with the persistent focus on these changes."

Ranger College

Ranger College did not meet four of the indicator thresholds. The operating margin and return on net position were negative. The college's expendable and unrestricted net position decreased from FY 2018, which decreased the institution's viability ratio, which remains below the state standard.

Institutional Comments – Gaylyn Mendoza, Chief Financial Officer

"On behalf of Ranger College, we would like to provide explanations on the College's financial ratios for the 2019 fiscal year that categorized the college as reporting financial stress. We would also like to include in this explanation upcoming programs that we have planned to be ensure a better success rate for our students, meet the needs of our communities that we serve, advance our students to the next level, and increase our contact hours and revenue.

The negative Return on Net Position is related to the College's negative net income effect of GASB 68 and GASB 75 adjustments netting to $634,320. This is due to the actuarial calculation of pension and other post-employment benefits (OPEB) expense being greater than the actual college contributions for pension and post-employment benefits. In the previous year the college had two larger non-cash donations of capital assets that were able to offset the GASB adjustments. In the current year, the college also had a large decrease in continuing education revenue related to a program that was not funded or needed in the current year by the partner corporation. This program has always reported a net revenue for the college.

The negative Operating Margin is related to the increase in operating expenses related to the net income effect of GASB 68 and 75 adjustments to pension and OPEB expense as well as increasing depreciation expense for the increase in capital assets over the past couple of years. The negative operating margin is also due to a decrease in maintenance and operations

tax revenue of 90% from the prior year as well as the decrease in continuing education revenue related to a program that was not funded or needed in the current year by the partner corporation and the decrease in non-cash donations of capital assets in the current year.

The Viability Ratio being below the standard is due to the negative change in net position as detailed out in the section on the Return on the Net Position.

Ranger College has fully committed to the Guided Pathways Reform. With this commitment, we are redesigning all policies, programs and services to center around student success. As a result, we are constantly growing and expanding our (Career and Technical Education) CTE and Workforce Programs at all campuses and within our Dual Credit Program as well.

Programs that are increasing include Machining, EMT, Cosmetology and Welding. We recently expanded our welding program to include a partnership with Central Texas Opportunities that will enable us to offer night classes to underserved populations in our area. We continue to build new partnerships with high schools to expand our machining and EMT programs to many more rural high schools.

Beginning in August, we will be implementing a new Unmanned Aircraft Systems (UAS) program that will be offered to both traditional and dual credit students. We will also have our first Licensed Vocational Nursing (LVN) class extended into dual credit classrooms. In addition, we recently added a new Certified Dietary Management program to our offerings. The goal is to begin offering this program within the next six months. With the expansion and addition of these programs we are anticipating an increase in contact hours and additional revenue.

In addition, using Guided Pathways, has enabled us to develop twenty new Fields of Studies (FOS). Using DigiTex we were able to add these FOS with absolutely no additional personnel cost to the College and will also have options to generate income using DigiTex to offer courses to students from other community colleges.

Ranger College is continuously seeking ways to work with industry partners and community leaders to fill the needs of our community. This constant collaboration provides us the opportunity to increase contact hours and revenue.”

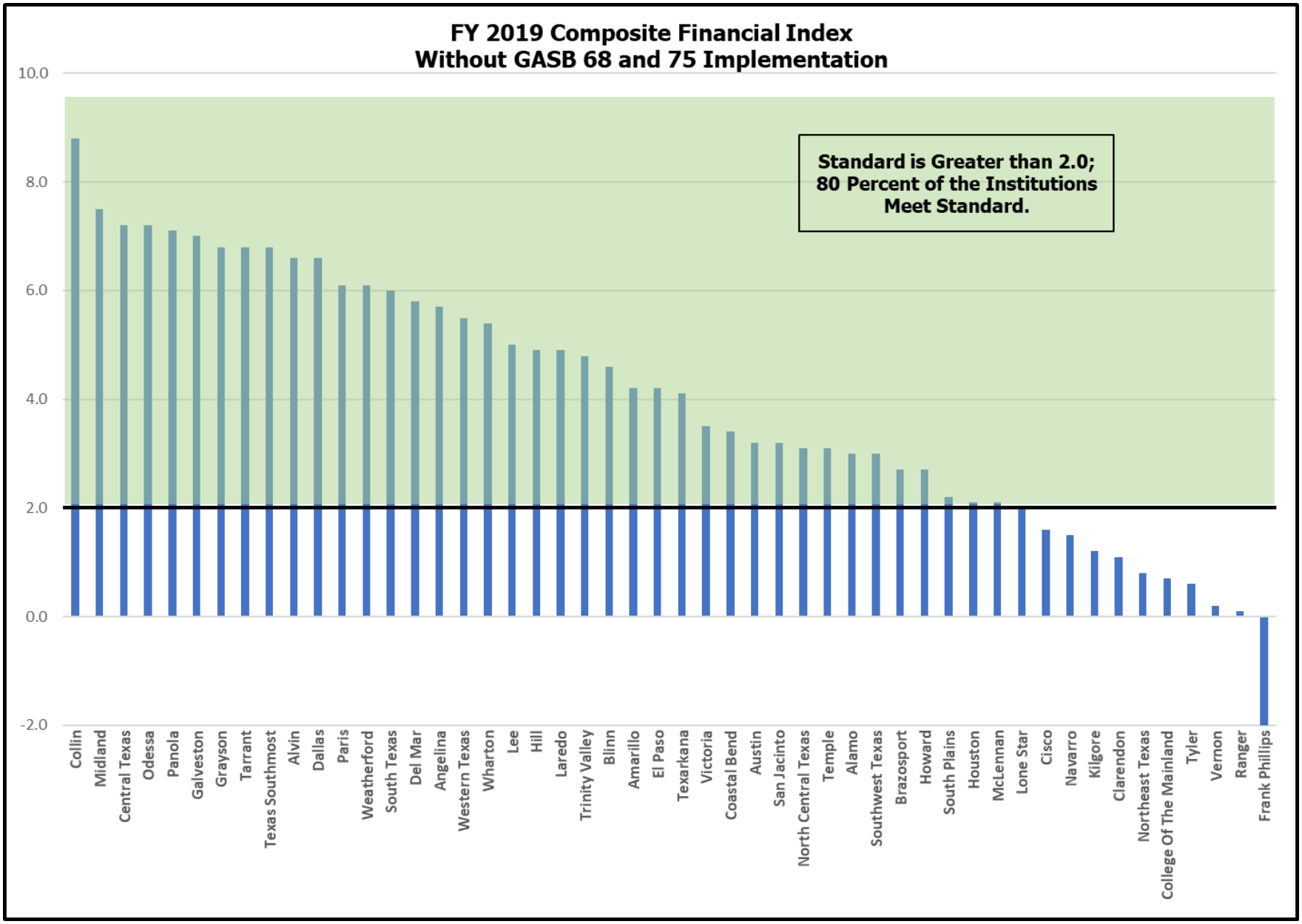
Appendix A: Composite Financial Index, Core Financial, and Other Financial Ratio

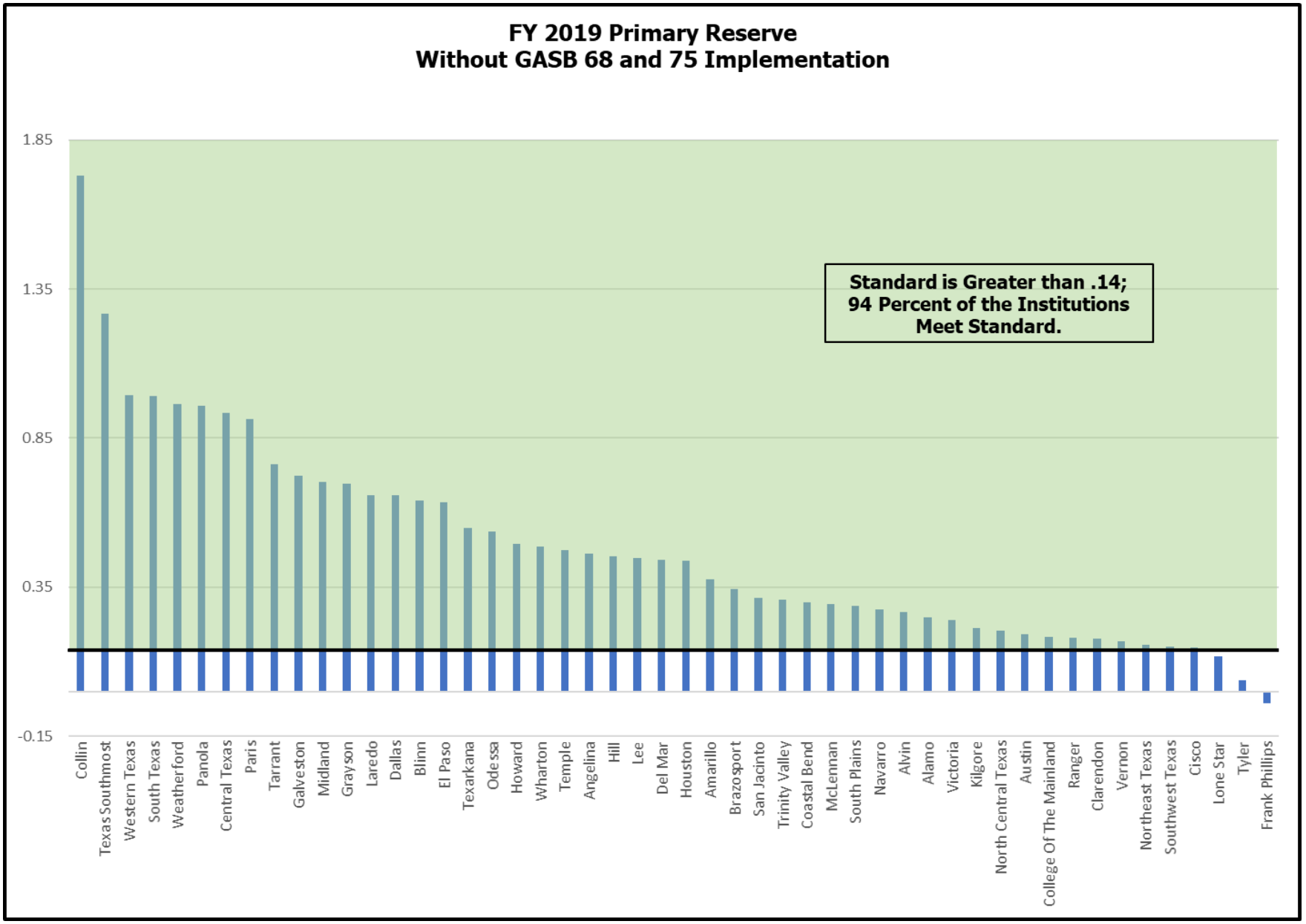
Fiscal Year 2018 General Obligation Bond Debt Excluded

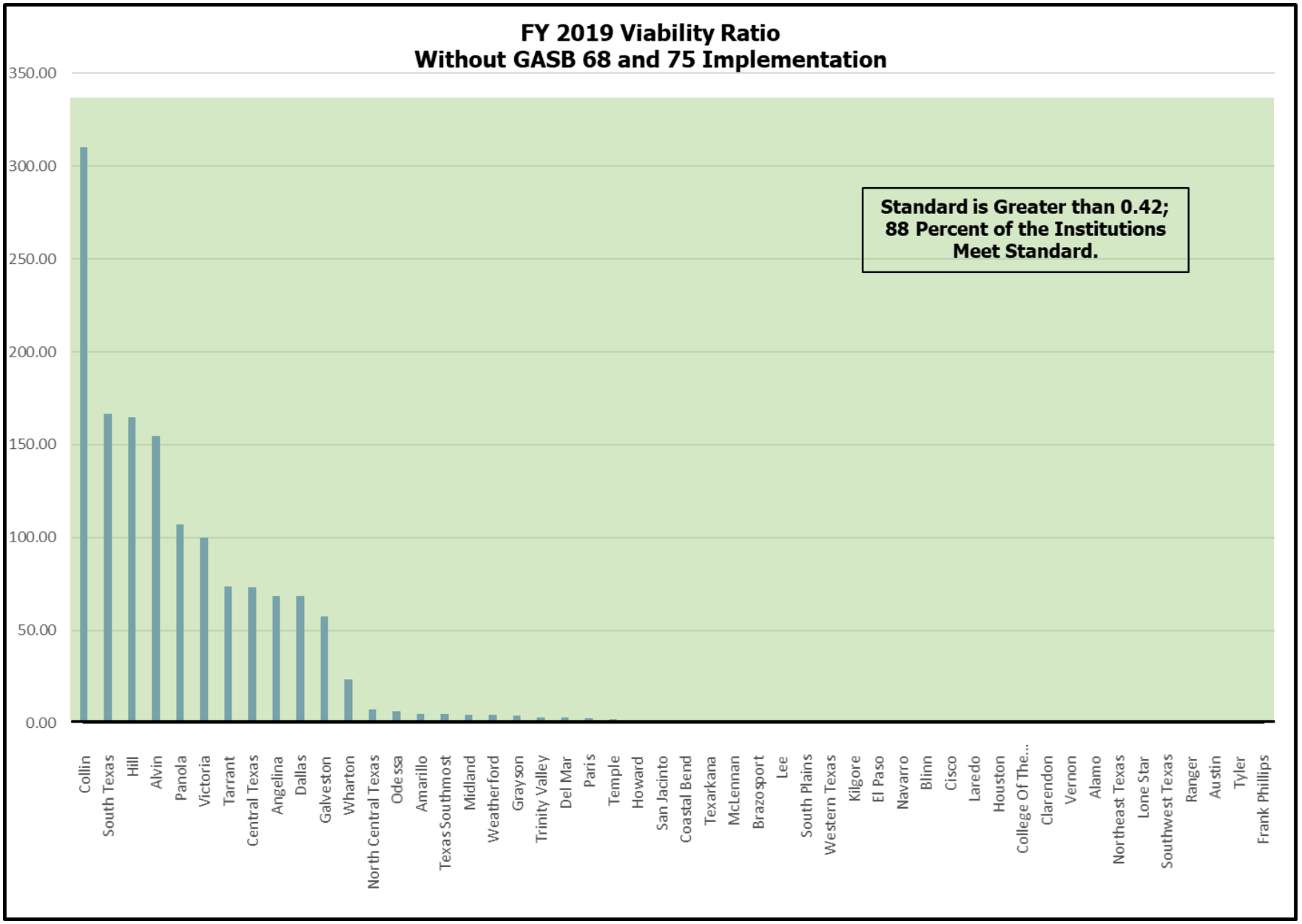
Financial Stress Indicators	District	Composite Financial Index	Return on Net Position	Operating Margin	Primary Reserve	Viability Ratio	Equity Ratio	Leverage Ratio
0	Alamo	3.0	13.6%	3.7%	0.25	0.54	38.6%	0.34
0	Alvin	6.6	13.7%	10.6%	0.27	154.87	42.7%	0.00
2	Amarillo	4.2	**(0.4%)**	**(1.8%)**	0.38	5.08	55.4%	0.03
0	Angelina	5.7	5.1%	3.1%	0.46	68.40	70.9%	0.00
3	Austin	3.2	27.8%	3.5%	0.19	**0.18**	**16.9%**	**2.21**
0	Blinn	4.6	13.2%	14.8%	0.64	0.76	53.3%	0.57
1	Brazosport	2.7	9.5%	**(1.8%)**	0.34	1.29	42.8%	0.07
0	Central Texas	7.2	2.7%	9.2%	0.93	73.31	87.4%	0.00
1	Cisco	**1.6**	4.0%	1.2%	0.15	0.74	64.5%	0.34
2	Clarendon	**1.1**	2.4%	**(0.7%)**	0.18	0.62	74.8%	0.02
0	Coastal Bend	3.4	3.5%	7.0%	0.30	1.50	59.6%	0.20
3	College Of The Mainland	**0.7**	**(8.2%)**	3.2%	0.18	0.62	**16.6%**	0.00
0	Collin	8.8	8.3%	17.9%	1.73	310.10	65.4%	0.00
0	Dallas	6.6	10.0%	2.7%	0.66	68.36	72.3%	0.00
0	Del Mar	5.8	13.1%	9.7%	0.44	2.80	37.6%	0.00
0	El Paso	4.2	8.8%	9.0%	0.63	0.83	49.7%	0.63
5	Frank Phillips	**(2.0)**	**(4.1%)**	**(11.3%)**	**(0.04)**	**(1.26)**	74.5%	0.04
0	Galveston	7.0	5.8%	7.8%	0.72	57.42	87.6%	0.00
0	Grayson	6.8	7.4%	7.0%	0.70	3.80	65.4%	0.05
0	Hill	4.9	1.8%	0.0%	0.45	164.70	86.6%	0.00
1	Houston	2.1	4.7%	**(1.0%)**	0.44	0.70	39.7%	0.51
1	Howard	2.7	4.1%	**(3.8%)**	0.49	1.68	65.4%	0.21
3	Kilgore	**1.2**	**(0.7%)**	**(0.7%)**	0.21	0.98	79.5%	0.13
0	Laredo	4.9	15.3%	8.1%	0.66	0.70	29.1%	0.89
0	Lee	5.0	18.4%	10.3%	0.45	1.18	44.5%	0.26
3	Lone Star	2.0	14.6%	**(0.5%)**	**0.12**	**0.33**	32.3%	0.25
1	McLennan	2.1	4.4%	**(1.6%)**	0.29	1.32	42.3%	0.26
0	Midland	7.5	11.4%	12.5%	0.70	4.70	73.7%	0.07
2	Navarro	**1.5**	2.3%	**(0.9%)**	0.28	0.78	60.1%	0.26
2	North Central Texas	3.1	**(5.3%)**	**(10.7%)**	0.20	7.22	65.8%	0.04
2	Northeast Texas	**0.8**	3.6%	**(6.0%)**	0.16	0.51	27.8%	0.43
0	Odessa	7.2	13.4%	13.0%	0.54	6.20	51.1%	0.06
0	Panola	7.1	6.1%	3.6%	0.96	106.82	60.0%	0.00
0	Paris	6.1	6.2%	10.9%	0.91	2.45	74.0%	0.20
4	Ranger	**0.1**	**(1.5%)**	**(6.0%)**	0.18	**0.19**	31.5%	1.50
1	San Jacinto	3.2	10.4%	**(0.6%)**	0.32	1.65	25.2%	0.21
0	South Plains	2.2	4.4%	0.3%	0.29	1.17	65.6%	0.23
1	South Texas	6.0	2.8%	**(7.2%)**	0.99	166.70	71.4%	0.00
1	Southwest Texas	3.0	17.5%	4.6%	0.15	**0.29**	41.2%	0.96
0	Tarrant	6.8	3.3%	6.7%	0.76	73.69	95.5%	0.00
1	Temple	3.1	1.6%	**(1.1%)**	0.48	2.20	53.6%	0.18
0	Texarkana	4.1	4.8%	9.7%	0.55	1.41	63.6%	0.00
1	Texas Southmost	6.8	3.6%	**(3.6%)**	1.27	4.86	70.6%	0.07
0	Trinity Valley	4.8	6.6%	6.6%	0.31	2.87	78.4%	0.06
3	Tyler	**0.6**	2.6%	1.6%	**0.04**	**0.06**	42.1%	0.64
3	Vernon	**0.2**	**(3.2%)**	**(3.0%)**	0.17	0.56	55.2%	0.41
2	Victoria	3.5	**(2.1%)**	**(8.4%)**	0.24	100.00	57.4%	0.00
1	Weatherford	6.1	2.7%	**(1.5%)**	0.96	4.54	75.7%	0.13
0	Western Texas	5.5	9.0%	15.1%	0.99	1.12	61.4%	0.44
0	Wharton	5.4	2.7%	2.5%	0.49	23.65	82.5%	0.01
0	Statewide	3.8	7.3%	3.5%	0.51	1.51	51.7%	0.21

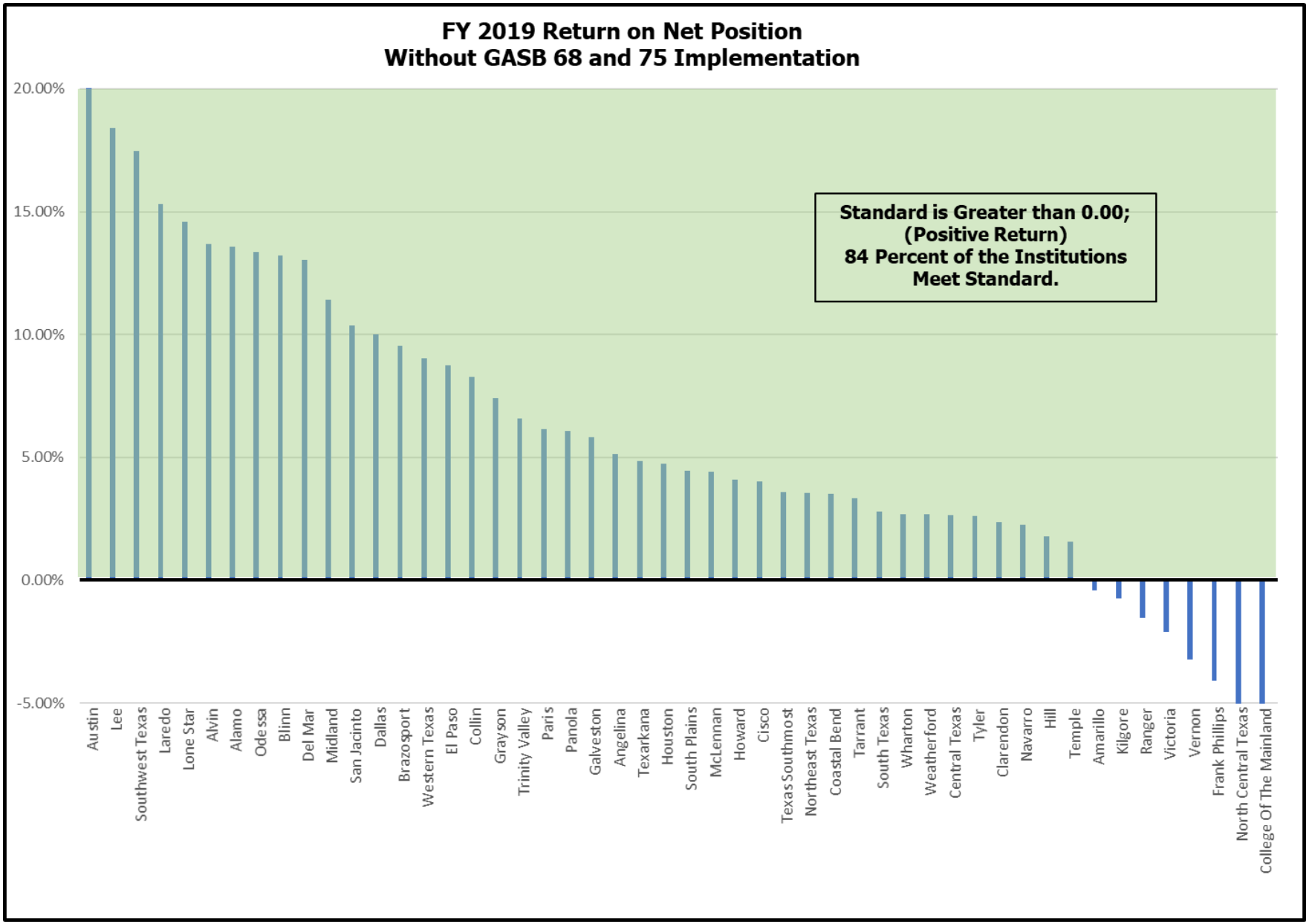
Bold fonts indicate ratios that do not meet the state standard.

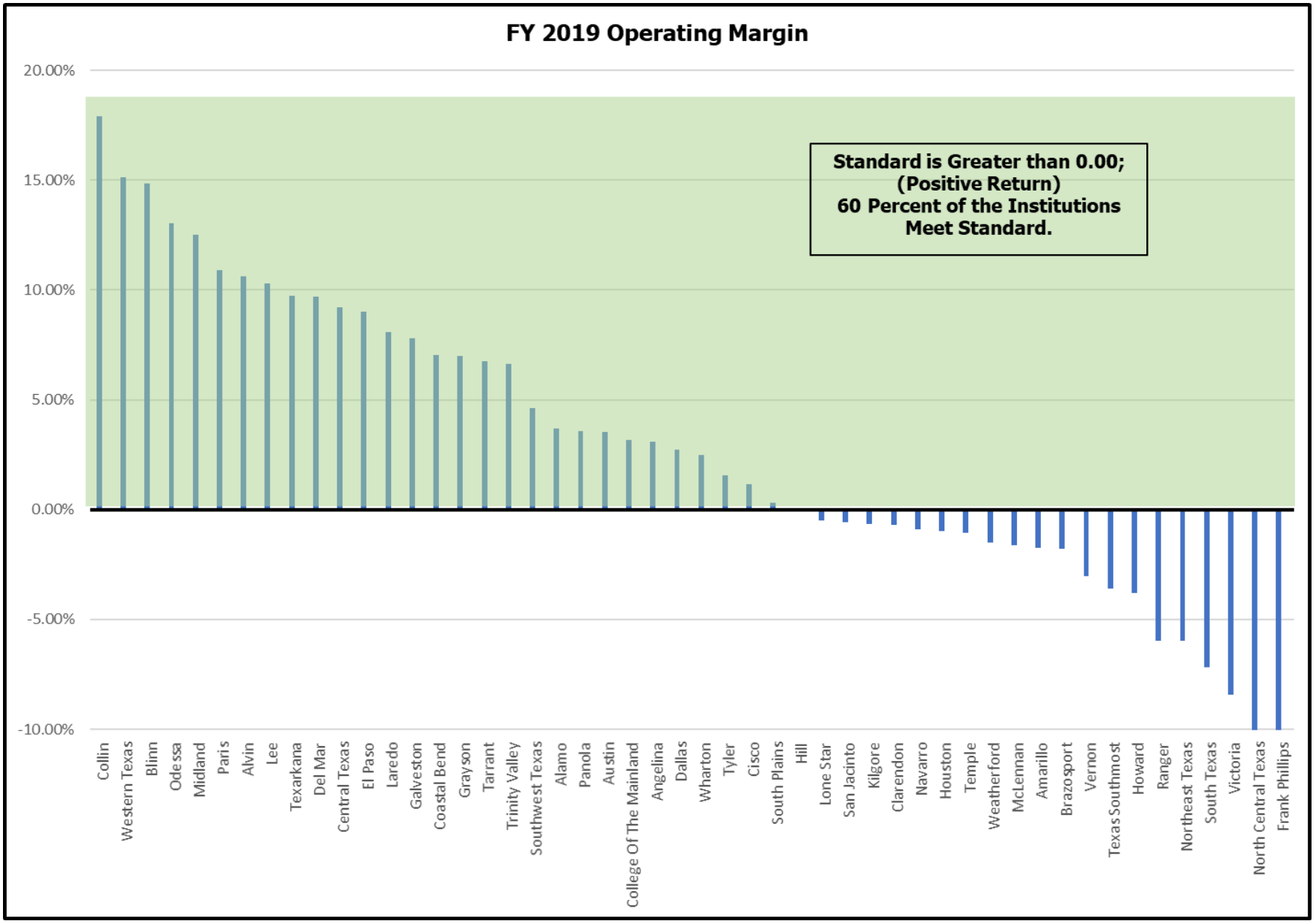
- Zero to one financial stress indicators, which indicates no financial stress.
- Two to three financial stress indicators, which indicates little to moderate financial stress.
- Four to seven financial stress indicators, which indicates financial stress.

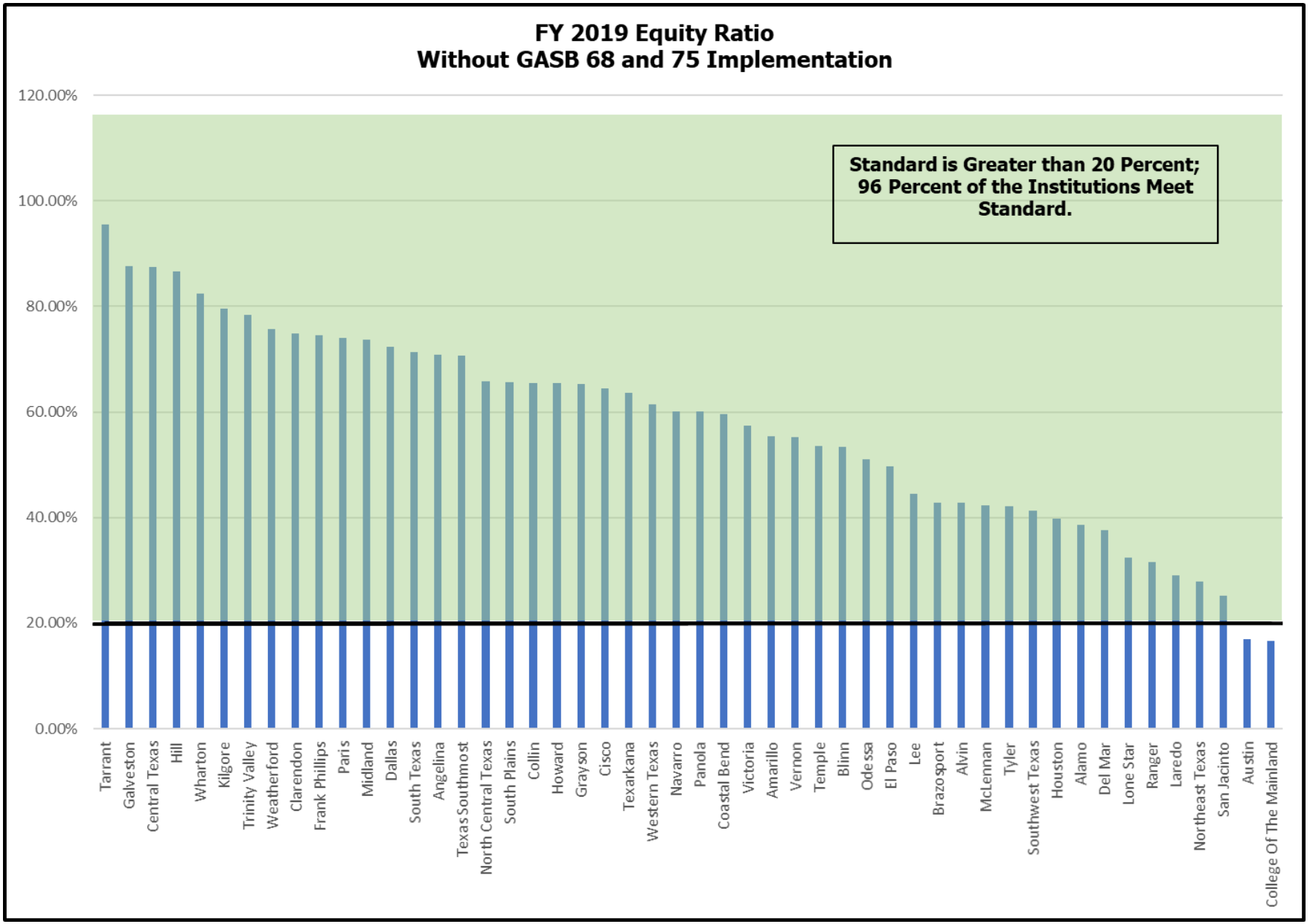

FY 2019 Composite Financial Index
Without GASB 68 and 75 Implementation
Standard is Greater than 2.0;
80 Percent of the Institutions
Meet Standard.
10.0
8.0
6.0
4.0
2.0
0.0
-2.0
Collin
Midland
Central Texas
Odessa
Panola
Galveston
Grayson
Tarrant
Texas Southmost
Alvin
Dallas
Paris
Weatherford
South Texas
Del Mar
Angelina
Western Texas
Wharton
Lee
Hill
Laredo
Trinity Valley
Blinn
Amarillo
El Paso
Texarkana
Victoria
Coastal Bend
Austin
San Jacinto
North Central Texas
Temple
Alamo
Southwest Texas
Brazosport
Howard
South Plains
Houston
McLennan
Lone Star
Cisco
Navarro
Kilgore
Clarendon
Northeast Texas
College Of The Mainland
Tyler
Vernon
Ranger
Frank Phillips

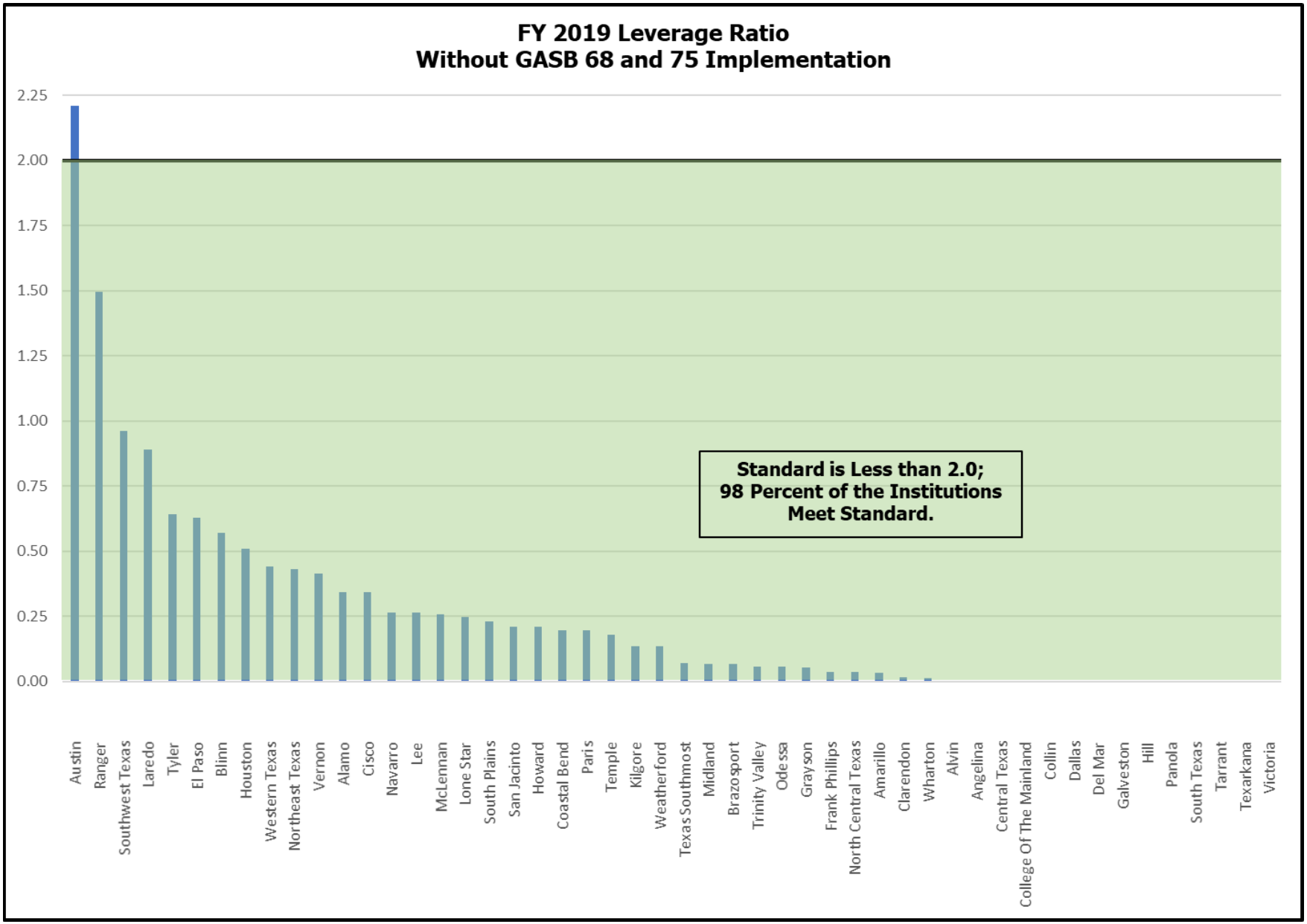

FY 2019 Primary Reserve
Without GASB 68 and 75 Implementation
1.85
1.35
0.85
0.35
-0.15
Standard is Greater than .14;
94 Percent of the Institutions
Meet Standard.
Collin
Texas Southmost
Western Texas
South Texas
Weatherford
Panola
Central Texas
Paris
Tarrant
Galveston
Midland
Grayson
Laredo
Dallas
Blinn
El Paso
Texarkana
Odessa
Howard
Wharton
Temple
Angelina
Hill
Lee
Del Mar
Houston
Amarillo
Brazosport
San Jacinto
Trinity Valley
Coastal Bend
McLennan
South Plains
Navarro
Alvin
Alamo
Victoria
Kilgore
North Central Texas
Austin
College Of The Mainland
Ranger
Clarendon
Vernon
Northeast Texas
Southwest Texas
Cisco
Lone Star
Tyler
Frank Phillips


FY 2019 Viability Ratio
Without GASB 68 and 75 Implementation
350.00
300.00
250.00
200.00
150.00
100.00
50.00
0.00
Standard is Greater than 0.42;
88 Percent of the Institutions
Meet Standard.
Collin
South Texas
Hill
Alvin
Panola
Victoria
Tarrant
Central Texas
Angelina
Dallas
Galveston
Wharton
North Central Texas
Odessa
Amarillo
Texas Southmost
Midland
Weatherford
Grayson
Trinity Valley
Del Mar
Paris
Temple
Howard
San Jacinto
Coastal Bend
Texarkana
McLennan
Brazosport
Lee
South Plains
Western Texas
Kilgore
El Paso
Navarro
Blinn
Cisco
Laredo
Houston
College Of The...
Clarendon
Vernon
Alamo
Northeast Texas
Lone Star
Southwest Texas
Ranger
Austin
Tyler
Frank Phillips


FY 2019 Return on Net Position
Without GASB 68 and 75 Implementation
20.00%
15.00%
10.00%
5.00%
0.00%
-5.00%
Standard is Greater than 0.00;
(Positive Return)
84 Percent of the Institutions
Meet Standard.
Austin
Lee
Southwest Texas
Laredo
Lone Star
Alvin
Alamo
Odessa
Blinn
Del Mar
Midland
San Jacinto
Dallas
Brazosport
Western Texas
El Paso
Collin
Grayson
Trinity Valley
Paris
Panola
Galveston
Angelina
Texarkana
Houston
South Plains
McLennan
Howard
Cisco
Texas Southmost
Northeast Texas
Coastal Bend
Tarrant
South Texas
Wharton
Weatherford
Central Texas
Tyler
Clarendon
Navarro
Hill
Temple
Amarillo
Kilgore
Ranger
Victoria
Vernon
Frank Phillips
North Central Texas
College Of The Mainland


FY 2019 Operating Margin
20.00%
15.00%
10.00%
5.00%
0.00%
-5.00%
-10.00%
Standard is Greater than 0.00;
(Positive Return)
60 Percent of the Institutions
Meet Standard.
Collin
Western Texas
Blinn
Odessa
Midland
Paris
Alvin
Lee
Texarkana
Del Mar
Central Texas
El Paso
Laredo
Galveston
Coastal Bend
Grayson
Tarrant
Trinity Valley
Southwest Texas
Alamo
Panola
Austin
College Of The Mainland
Angelina
Dallas
Wharton
Tyler
Cisco
South Plains
Hill
Lone Star
San Jacinto
Kilgore
Clarendon
Navarro
Houston
Temple
Weatherford
McLennan
Amarillo
Brazosport
Vernon
Texas Southmost
Howard
Ranger
Northeast Texas
South Texas
Victoria
North Central Texas
Frank Phillips


FY 2019 Equity Ratio
Without GASB 68 and 75 Implementation
120.00%
100.00%
80.00%
60.00%
40.00%
20.00%
0.00%
Standard is Greater than 20 Percent; 96 Percent of the Institutions Meet Standard.
Tarrant
Galveston
Central Texas
Hill
Wharton
Kilgore
Trinity Valley
Weatherford
Clarendon
Frank Phillips
Paris
Midland
Dallas
South Texas
Angelina
Texas Southmost
North Central Texas
South Plains
Collin
Howard
Grayson
Cisco
Texarkana
Western Texas
Navarro
Panola
Coastal Bend
Victoria
Amarillo
Vernon
Temple
Blinn
Odessa
El Paso
Lee
Brazosport
Alvin
McLennan
Tyler
Southwest Texas
Houston
Alamo
Del Mar
Lone Star
Ranger
Laredo
Northeast Texas
San Jacinto
Austin
College Of The Mainland


FY 2019 Leverage Ratio
Without GASB 68 and 75 Implementation
2.25
2.00
1.75
1.50
1.25
1.00
0.75
0.50
0.25
0.00
Standard is Less than 2.0;
98 Percent of the Institutions
Meet Standard.
Austin
Ranger
Southwest Texas
Laredo
Tyler
El Paso
Blinn
Houston
Western Texas
Northeast Texas
Vernon
Alamo
Cisco
Navarro
Lee
McLennan
Lone Star
South Plains
San Jacinto
Howard
Coastal Bend
Paris
Temple
Kilgore
Weatherford
Texas Southmost
Midland
Brazosport
Trinity Valley
Odessa
Grayson
Frank Phillips
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Clarendon
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Alvin
Angelina
Central Texas
College Of The Mainland
Collin
Dallas
Del Mar
Galveston
Hill
Panola
South Texas
Tarrant
Texarkana
Victoria

Appendix B: House Bill 1 Authorizing Financial Condition Report

General Appropriations Act, Senate Bill 1, Article III-217, Section 12, 85th Texas Legislature

"Each community college shall provide to the Texas Higher Education Coordinating Board financial data related to the operation of each community college using the specific content and format prescribed by the Coordinating Board. Each community college shall provide the report no later than January 1st of each year.

The Coordinating Board shall provide an annual report due on May 1 to the Legislative Budget Board and Governor's Office about the financial condition of the state's community college districts."

Appendix C: General Comments from Institutions

Nancy Wylie, Chief Financial Officer, Kilgore College

"On March 4, 2019, the Kilgore College Board of Trustees approved filing a petition with the court to substitute the Kilgore College Foundation as trustee over the endowed funds invested with the Texas Presbyterian Foundation. Revenue from these endowments is used for tuition assistance as opposed to operations.

The timing of these transfers will impact two fiscal year-end financial results and create a decrease in the net position of Kilgore College for both fiscal years 2019 and 2020. However, the decrease in net position is not reflective of the long-term viability of Kilgore College nor its ability to meet its financial needs.

One endowed fund valued at $1,348,741 was transferred during July 2019. The transfer of this endowed fund to the Kilgore College Foundation created a decrease in the Kilgore College net position of $1,348,741. However, Kilgore College actually recognized a net position increase without the transfer of $634,527. Therefore, the final change to net position for the year ending August 31, 2019 was ($714,214).

The remaining endowed funds valued at $9,169,013 were transferred during September 2019. Therefore, there will be a substantial reduction in net position for the year ending August 31, 2020.

The results presented in the Community College Financial Condition Report for Kilgore College do not accurately represent the viability of Kilgore College. The above information should be considered when reviewing the financial stability of Kilgore College."

Myriam Lopez, Controller, South Texas College

"The negative Operating Margin is due to the increase in operating expenses related to the changes in actuarial assumptions for pension (GASB 68) and changes to the allocation methodology of OPEB (GASB 75), which had a large impact on the net income. For Fiscal Year 2019, the College recorded a total of $21,742,507 benefit expenses related to GASB 68 ($2,722,496) and GASB 75 ($19,020,011). In order to determine the actual operating expenses, expenses related to GASB 68 and GASB 75 should be captured and recorded separately on the Schedule B, Schedule of Operating Expenses by Object."

Valeri Kot, Interim Associate Vice Chancellor Financial Reporting & Operations, Lone Star College

"**Operating Margin:**
Net of depreciation, Lone Star College would easily have met the Operating Margin target. In addition, the College continues to recover from the physical and financial impact of Hurricane Harvey. Due to timing differences potentially affecting the total income calculation, the College's operating margin ratio may be skewed by the ongoing effects of Harvey.

Primary Reserve Ratio1:
The question addressed by this ratio speaks to a worst-case scenario. In this case the district would: 1) not fund depreciation ($25.3M), 2) terminate non contract adjunct and part time staff and end all employee travel ($43) and 3) stop discretionary spending ($16M, FF&E). When adjusting for these items the ratio increases to .13. Moreover, the interest expense associated with LSC's debt is included in the denominator of this equation. The debt, however, is supported by a tax levy that would endure legally regardless of operations. When this interest expense is netted out, the ratio increases to .15. (To increase precision, need interest paid on revenue and MTN in 2019 to net them out, which would slightly reduce this value). The College is committed to both new investment in programs and the related infrastructure to support these programs and to recovery rebuilding after Hurricane Harvey. The College's net investment in capital assets, a non-expendable portion of its net position, increased more than the trend over the years prior to Harvey. As FEMA and insurance claims continue to be pursued, the College expects this ratio to reverse.

Viability Ratio:
Noncurrent liabilities may be skewed by the inclusion of unamortized bond premium2 related to GO Bonds which are typically excluded from the calculations. Including it adds $55.2 into the denominator. Exclusion of this portion of the non-current liabilities improves the ratio to .47.."

60x30TX
Texas Higher Education Coordinating Board

This document is available on the Texas Higher Education Coordinating Board website: http://www.thecb.state.tx.us

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